



JUMP START

As they began working on their business plan, Nora and Samantha realized that it was not going to be an easy task. There was a great deal of necessary information that needed to go in the plan. They were going to have to do a lot of research and make plans for the future of their business. The business plan needed to present a clear picture of their idea so that anyone who read it would understand their plans and intentions. What types of things do you think Nora and Samantha should include in their business plan?

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GOALS

List and describe the basic elements of a business plan

Describe how to pull a business plan together

KEY TERMS

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Basic Elements of a Business Plan

Every new business should have a business plan, but not all business plans are alike. The content of a business plan for a small, home-based, sole-owner business will differ from a business plan for a large corporation with offices in many cities. But regardless of the business, all business plans serve the same basic purposes. They should also contain the same three basic components—introductory elements, the main body, and the appendix.

The main body of the business plan will contain the bulk of the information about the business idea. It provides details on how the business will succeed. A lot of time and effort will go into writing the main body of the plan, and it should be compiled first. Then, details from the main body will be used to compile the other components in the business plan.

The main body of the business plan will cover many areas. It should be organized into five sections.

1. Introduction
2. Marketing
3. Financial Management
4. Operations
5. Concluding Statement

Nora Ellis and Samantha Richards are qualified childcare providers who have worked together at a day-care center for many years. Because of the high demand for quality day-care services, Nora and Samantha know they are well positioned to meet this need. They decide to create a business plan for opening their own center.

Introduction

The introduction section of a business plan contains many important details about the proposed business idea. The following information should be included in the introduction section.

- A detailed description of the business and its goals
- The ownership of the business and the legal structure
- The skills and experience you bring to the business
- The advantages you and your business have over your competitors

Detailed Description

Something inspired the idea for your business. Describing how you came up with your idea can help lenders, investors, and others understand what your business is about. Your business plan should also outline your short-term (three months to one year), medium-term (two to five years), and long-term (more than five years) goals. This section describes your vision for the company's future. Stating goals will help provide you with direction and focus for your business activities.

Nora and Samantha know their short- and medium-term goals. In the first year of business, they want to get financing to lease or buy a facility, equip the facility, and staff it. By their third year of business, they want to invest in more equipment and expand their facility. They have not yet thought about their long-term objectives. Writing a business plan will force them to think about future plans.



Why should you include goals in your business plan?

Ownership and Legal Structure In your business, you should have a section detailing your form of ownership. Will it be a sole proprietorship (one owner), a partnership (two or more owners), or a corporation (many owners that hold shares of stock in the business)? Provide information relevant to your form of business, such as who your partners are or how many shareholders you have. This section of the business plan is important because each legal form of business has an effect on how the business works and makes profits.

Skills and Experience A written summary of your experience is an essential part of your business plan. This summary should emphasize all experience you have that relates to the business, including paid work experience, volunteer experience, and any hobbies you have that relate to your proposed business. The skills and experience of any managers or professional employees who will be hired will also be relevant.

Nora and Samantha have Master's degrees in early childhood education. Together, they have more than 35 years of experience in day care, including 15 years in management. To show that they are well qualified to run a day-care center, they include copies of their resumes and letters of reference from satisfied parents.

Competitive Advantages You should list your company's advantages over the competition. These advantages may include the following.

- Performance
- Quality
- Reliability
- Distribution
- Price
- Promotion
- Public image or reputation



Tech Literacy

PREPARING THE BUSINESS PLAN

There are many software programs available for entrepreneurs to use when preparing a business plan. A recent Internet search showed more than 345,000 matches for "business plan software." Many entrepreneurs use these programs because they provide an easy-to-use template. By plugging your specific information into the template, you get a professional-looking finished report. If you decide to use a software program to create your business plan, be sure it includes all of the essential elements. It is a good idea to evaluate several different programs before deciding which one to use. Your choice should best match the information you want to include and your desired style. And, of course, it should be one that you can use without difficulty.

THINK CRITICALLY

What are some of the advantages and disadvantages of using business plan software?

Marketing

The marketing section of your business plan should describe the products and/or services you will offer, the market, the industry, and your location. Developing a marketing plan will be examined in more detail in Chapter 4.

Products and Services Describe the products or services and explain how they differ from those already on the market. Highlight any unique features of your products or services, and explain the benefits customers will receive by purchasing from your company.

Market You will explain who your prospective customers are, how large the market is for your product or service, and how you plan to enter that market. You should also explain how you plan to deal with competition.

Writing this section of the business plan was easy for Nora and Samantha because they had a clear idea of what they wanted to do. Their prospective customers are the parents of the 1,000 to 1,500 children between the ages of two and five who live in their area. Nora and Samantha determine that 90 percent of the families would be able to afford their center. They will advertise in local newspapers and send out fliers to families in their target market.

Industry You should describe the industry in which you will operate. To find this information, you will need to conduct research. Things you should include in this section are

- External factors affecting your business, such as high competition or a lack of certain suppliers
- Growth potential of the industry, including growth forecasts
- Economic trends of the industry
- Technology trends that may affect the industry

When providing information on the industry in which they will operate, Nora and Samantha include population data for their area. This information shows that demand for their service could grow over time.



Why would population data be useful in the development of the marketing plan?

Location Describe the location of your business. Lenders want to know exactly where your business will be because the location is often a critical factor in its success.

Nora and Samantha describe their plan to start the business in a prime location, in the heart of a suburb where most families have young children and both parents work outside the home.

TEAMWORK

In small groups, brainstorm reasons why it is important to include each of the elements of a business plan.

Financial Management

The financial section of your business plan will help determine your financial needs. It forces you to look at financial risks and the costs and expenses of running your business. It consists of three elements.

- 1. Identification of Risks** Prospective lenders and investors will want to know what risks your business faces and how you plan to deal with them. Do not be afraid to list potential problems. Lenders know that every business faces risks. They will be reassured to see that you have clearly thought through the potential problems and have a plan for dealing with them. Risks typically faced by new businesses include competitors cutting prices, costs exceeding projections, and demand for your product or service declining.
- 2. Financial Statements** A new business must include projected financial statements in its business plan. An existing business must include current as well as projected statements. A financial statement based on projected revenues and expenses is called a **pro forma financial statement**.

The image shows a tilted view of a pro forma financial statement table. The table contains multiple columns and rows of numerical values, likely representing different financial metrics over time or under various scenarios. The values range from \$0.00 to \$4.00 in the first column, and from 17.00 to 223.4 in the last column. The table is rotated approximately 45 degrees clockwise.

Why is it important to prepare projected financial statements for a new business?

- 3. Funding Request and Return on Investment** You must indicate how much you need to borrow and how you plan to use the money. You should give investors an idea of how much money they could expect to earn on their investment in your business. You should state how much money you are personally investing and provide a personal financial statement.

Nora and Samantha have included pro forma financial statements for their business, which show how much money and profit they expect to earn. They require \$140,000 to start their business. Together they are contributing \$85,000 of their own money. This means they need a bank to loan them \$55,000. They include this information in their plan as well.

Operations

The operation of your company is critical to its success. In this section of your business plan, you should explain how the business will be managed on a day-to-day basis and discuss hiring and personnel procedures. You should also include information on insurance and lease or rental

agreements. Describe the equipment that will be necessary for production of your products or services and how the products or services will be produced and delivered.

As part of the operations section of their business plan, Nora and Samantha describe hiring plans to ensure their day-care center is well staffed. They also devote a section to health and safety and outline plans for dealing with emergencies.



Why should you consider your hiring needs when preparing a business plan?

Concluding Statement

In this section, you should summarize the goals and objectives you have for your business. You should also emphasize your commitment to the success of the business.

CheckPOINT

Why should the business plan include information about the business owner's skills and experience?

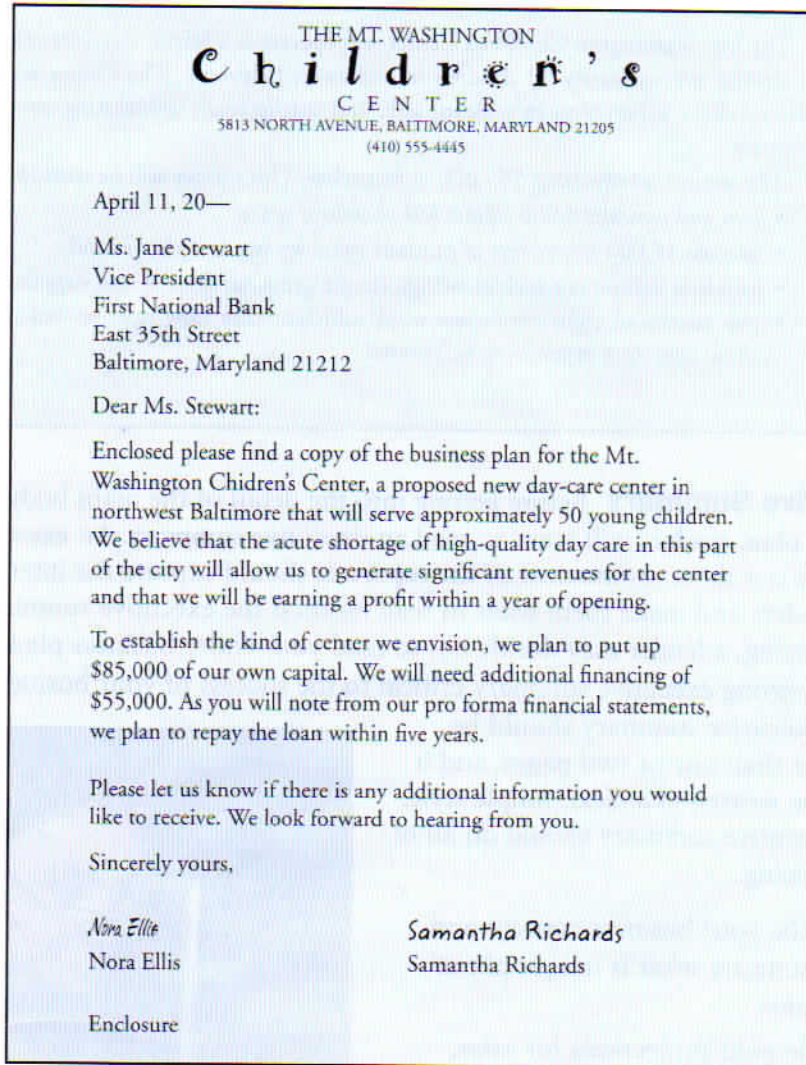
Complete the Business Plan

After you have completed the main body of your business plan, you will need to focus your efforts on the other components—the introductory elements and the appendix. Then you must pull all the components together into a well-organized, attractive document.

Introductory Elements

Every business plan should begin with a cover letter, a title page, a table of contents, a statement of purpose, and an executive summary. These elements help set the tone for the body of your business plan.

Cover Letter A letter that introduces and explains an accompanying document or set of documents is called a **cover letter**. The cover letter for your business plan should include your name, the name of your business, and your address and telephone number. It should briefly describe your business and its potential for success. It also needs to tell the reader how much capital you need. Nora and Samantha prepare the cover letter shown below.



Title Page Your business plan should have a title page that indicates the name of your company, the current date, the owner of the company, the title of the owner, and the address and phone number of the company.

Table of Contents A table of contents is a listing of the material included in a publication. It shows the reader what each page covers. It is similar to a table of contents in a textbook. It is important that your table of contents is accurate, so make sure the sections are listed in the proper order and the given page numbers are correct.



COMMUNICATE

You are preparing a business plan for a self-storage facility (U-Store It). You are requesting a loan to buy the property and storage lockers. Write the cover letter and statement of purpose sections to the bank loan officer.

Statement of Purpose A brief explanation of why you are asking for a loan and what you plan to do with the money is called a **statement of purpose**. It should be no more than one or two paragraphs. Nora and Samantha write the statement of purpose shown here.

STATEMENT OF PURPOSE

The Mt. Washington Children's Center will operate as a private day-care center serving approximately 50 children in northwest Baltimore. The Center will offer excellent supervision in a clean, safe, and intellectually stimulating environment.

- The project is requesting \$55,000 in financing. This money will be used to
- rent and remodel 4,000 square feet of indoor space
 - prepare 18,000 square feet of outdoor space for use as a playground
 - purchase equipment such as swings, jungle gyms, sandboxes, and supplies
 - pay salaries of eight employees until sufficient cash flow is generated to allow operating expenses to be covered

Executive Summary Before getting into the detail of the main body of the business plan, readers will want to read an executive summary. An **executive summary** is a short restatement of the report. It should capture the interest of its readers and make them want to read more. If the executive summary is unconvincing, a lender may decide not to read your entire business plan. This makes a strong executive summary critical to the success of your business.

The executive summary should be no longer than one or two pages, and it should be written in a clear, simple style. Your executive summary should do all of the following.

- Describe your business concept and communicate what is unique about your idea
- Include your projections for sales, costs, and profits
- Identify your needs (inventory, land, building, equipment, etc.)
- State the amount you are interested in borrowing

Although the executive summary appears before the body of the business plan, it should be written after the business plan has been completed. To write the executive summary, go through



Why is the executive summary one of the most important elements of a business plan?

EXECUTIVE SUMMARY

The Mt. Washington Children's Center (MWCC) will be established as a partnership in Baltimore, Maryland. It will be owned and operated by Nora Ellis and Samantha Richards, highly respected childcare professionals with more than 35 years of experience in the field. Three experienced teachers and three teacher aides will supervise approximately 50 boys and girls between the ages of 2 and 5. In addition, a receptionist/bookkeeper and a cleaning/maintenance person will be hired.

MWCC is being established in response to the shortage of high-quality childcare in northwest Baltimore. Only two small day-care centers now serve a population of 45,000 upper-middle-class professionals. In 75 percent of these households, both parents work outside the home. The accessible location of the Center will make it an extremely attractive day-care option for parents in the area. When completed, the facility, which will include four large outdoor play structures and eight personal computers, will represent state-of-the-art day care. Its staff will comprise the finest day-care professionals in Baltimore, led by a management team that is recognized throughout the region.

Market research indicates that the MWCC could expect to fill 90 to 100 percent of its student positions immediately upon opening and that the Center would be profitable as early as the third year of operation. Expansion could begin in the third year. To finance the startup of the company, its owners are seeking \$55,000 in financing, which they would expect to repay within five years.

the business plan and find the most important and persuasive points you have made. Then draft an outline of an executive summary based on these points.

Once you have created a draft of your executive summary, ask people who do and do not understand your business to read the summary. If readers do not come away with a clear sense of what you plan to do and why you will succeed in doing it, your executive summary needs more work. Nora and Samantha's executive summary is shown above.

Appendix

The appendix to the business plan includes supporting documents that provide additional information and back up statements made in the body of the report. To help you determine what supporting documents to include, you should ask

yourself what you would want to know about a business before you would lend it money. Documents that might be included in the appendix are shown in the following list.

- Tax returns of the business owner for the past three years
- Personal financial statement of the owner
- Copy of proposed lease or purchase agreement for the building space
- Copy of business licenses and other legal documents
- Copy of resume of the owner
- Letters of recommendation
- Copies of letters of intent from suppliers
- Copies of any large sales contracts you have already negotiated

Put It All Together

Your business plan is your best opportunity to let other people know what you want to do with your company. It gives you the chance to convince them that your idea is sound and that you have the talent and resources to make your idea a successful business venture. To make the best of this opportunity, you will want to create an attractive document that is neat, well organized, and inviting to read. Handwritten business plans are not acceptable. All business plans must be word processed and printed on standard-sized



How can you create an attractive business plan?

white paper. In addition, your business plan should follow a standard format containing the introductory elements, the main body, and the appendix.

CheckPOINT

Why should you include supporting documents in your business plan?
